



# **CUNA & Affiliates**

## **Credit Union National Association, Inc.**

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**WRITTEN TESTIMONY  
OF  
CHARLES ELLIOTT  
PRESIDENT & CEO  
OF THE  
MISSISSIPPI CREDIT UNION ASSOCIATION  
ON BEHALF OF THE  
CREDIT UNION NATIONAL ASSOCIATION  
ON  
“HURRICANE KATRINA: THE FINANCIAL INSTITUTIONS’ RESPONSE”  
BEFORE THE  
HOUSE FINANCIAL SERVICES INSTITUTIONS SUBCOMMITTEE  
  
SEPTEMBER 14, 2005**

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Chairman Bachus, Ranking Member Sanders, and members of the Committee, especially Vice-Chairman Baker, on behalf of the Credit Union National Association (CUNA) I offer my deepest sympathies to the people, families and communities that are affected by Hurricane Katrina, and pledge the support of CUNA and the credit union movement to assist the victims in rebuilding their lives.

CUNA is the largest credit union trade association, representing approximately 90% of our nation’s nearly 9,000 state and federal credit unions and its 87 million members. I am Charles Elliott, President and CEO of the Mississippi Credit Union Association, and am here to not only share with you the devastation that has impacted our credit unions on the Gulf Coast, but also to share with you the remarkable relief efforts that are underway through credit unions, leagues and national credit union organizations across the country.

In your letter of invitation, you posed several questions that you asked to be addressed at this morning’s hearing. For your convenience, rather than trying to mend the answers throughout my statement, I have attached an addendum that provides the answers all together.

Credit unions have always lived by a very simple credo: 'people helping people.' While that philosophy animates America's credit unions everyday, it is especially valuable to our members at times like these. Because of the member-owned, cooperative structure of a credit union, we are uniquely positioned to provide essential financial services to those effected by this disaster. While no one welcomes this disaster, we are doing what credit unions do best: serve our members.

## **SCOPE OF IMPACT ON CREDIT UNIONS AND THEIR MEMBERS**

The devastation inflicted by Hurricane Katrina has had a significant impact on the credit unions and their operations in the states of Louisiana, Mississippi and Alabama. The damage to the credit unions in the areas impacted by Hurricane Katrina is expected to run into the multi-millions of dollars.

In the three states directly affected by Hurricane Katrina, there are combined 535 credit unions with 3.1 million members, and nearly \$18.8 billion in assets. Among these, there were 209 credit unions, with 1.1 million members and \$5.6 billion in assets that were in the areas most grievously affected (as determined by FEMA) by Hurricane Katrina and the resulting flooding. In other words, two out of five credit unions (39 percent) in the three-state area were most affected by the devastation. Those credit unions hold about one in every three (35 percent) of the credit union members in the three-state area, and hold about 30 percent of the total credit union assets in the three states.

Specifically, state by state, for the worst hit areas, affected were 20 credit unions with 228,000 members and \$1.3 billion in assets in Mississippi; 171 credit unions, with 775,000 members and \$4 billion in assets in Louisiana; and in Alabama, 18 credit unions with 76,000 members and \$301 million in assets.

Early estimates from the National Credit Union Administration show that 139 credit unions have been directly impacted, including 17 credit unions in Alabama, 25 in my state of Mississippi, and 95 in Louisiana (of which 93 were in New Orleans, and about 54 completely destroyed in the flooding). Some are facing total destruction in New Orleans and the coastal areas.

The Louisiana Credit Union League office, based out of New Orleans, has been completely destroyed. The League is currently operating out of an office in Baton Rouge, and is still in the process of trying to make contact with credit unions in the New Orleans area. The Mississippi and Alabama Credit Union Leagues are both up and running; however, credit unions in both states are faced with flooding and power outages, forcing some credit unions to close down and making it difficult for them to communicate with the League offices.

The Mississippi Credit Union Association (MCUA) office was without power and phone lines for four days following the storm. MCUA staff instituted daily conference calls from their personal home or cell phones in order to coordinate contact with credit unions and relief efforts for affected credit unions.

Staff from the Mississippi Credit Union Association made trips to the affected area as soon as the roads were cleared and travel was possible. MCUA has delivered donated equipment to credit unions, as well as personal supplies to credit union employees. The Association also coordinated two buses to pick up credit union employees and take them

shopping for personal supplies in Mobile, AL, which was the nearest city with functioning stores at the time.

In addition to the nationwide support from the credit union industry, the generosity of individual credit unions has been overwhelming. Staff from Merrimack Federal Credit Union of Massachusetts made a 3-day drive to Mississippi to deliver a recreational vehicle that was immediately put to use for staff housing. Patricia English with the North Carolina Credit Union League drove a mobile branch, which was donated by Carolina Telco Federal Credit Union, to Mississippi to be used by a credit union that lost their building in the storm.

The credit unions along the Gulf Coast are challenged, to say the least, to provide their own members with the most basic financial services. Nonetheless, their members are, or will soon be, in need of their credit unions.

Myriad efforts are underway across the broad spectrum of the credit union system to assist the victims of Hurricane Katrina, not just with access to financial services, but also with life's necessities of food and shelter.

## **EFFORTS OF CUNA**

While financial assistance will be critical in the long term, the more immediate need is for equipment, technological, and communications assistance to help credit unions reestablish service to their members and communities. CUNA sent out an alert to credit union CEOs and leagues making an appeal for generators, mobile branches and ATMs, and satellite phones. As of last week, for example, an immediate response resulted in satellite phones being sent to the Mississippi League and two to Louisiana to assist in their communication with credit unions. More equipment is being pledged on a daily basis.

CUNA staff is meeting daily via conference calls with the three leagues affected by the hurricane in assessing needs and coordinating assistance for the leagues and their credit unions during recovery. Additionally, CUNA has begun to compile a list of credit union staff willing to provide on-site assistance for credit unions when the need arises, and has set up an online bulletin board for the credit union movement to describe what they can and are ready to do to help.

### **“Relief Effort and Support of Credit Unions” (R.E.S.C.U.)**

The Credit Union National Association and the Alabama, Louisiana and Mississippi Credit Union Leagues have been collaborating with the entire credit union system to assist the 139 credit unions that have been directly impacted by hurricane Katrina. CUNA is focusing the energy of the movement in support of credit unions in the hurricane- and flood-ravaged areas in the Gulf states under a common program.

In addition, the trade association added resources to help credit unions more efficiently make donations and offer support, or for credit unions to find and obtain relief and support.

The "Relief Effort and Support for Credit Unions" (R.E.S.C.U.) has been developed to focus the energies of the movement, while also instilling efficiencies into the relief effort.

CUNA and the leagues had already been accomplishing a large chunk of a relief effort for credit unions, but under various programs, efforts and plans. The R.E.S.C.U. program brings all of these labors under one umbrella, and allows us to more effectively focus the movement's efforts in helping credit unions in Louisiana, Mississippi and Alabama get back on their feet, and continue serving their members.

CUNA and the American Association of Credit Union Leagues (AACUL) had been in contact with the leagues in the affected states immediately after the storm and daily since to coordinate movement response to the needs of credit unions in the Gulf area.

Additionally, CUNA had also issued nationwide pleas among the very largest credit unions for equipment and other resources to be sent to credit unions in the hurricane-affected area to help them begin serving members.

Under R.E.S.C.U., CUNA will continue coordinating relief efforts for credit unions with the leagues, but is also adding a number of resources, including:

- Two "800 number" telephone lines. The first (800-599-1197) is for credit unions to call to find out how to make cash, equipment and other donations for relief to credit unions in the affected states. The second line (800-333-2862) is for credit unions in Louisiana, Mississippi and Alabama (as well as other states) to call to request assistance from the credit union movement.
- A central data base that enables credit unions making donations (particularly equipment and other resources) and credit unions seeking assistance to easily and efficiently match up with another.
- Web assets dedicated to the distribution of information about national, state and local resources relevant to credit unions and the hurricane disaster.
- Continuous updates about federal laws and regulations (proposed and existing) affecting credit unions and service to their members, utilizing RSS news feeds.

CUNA is also working in conjunction with the National Credit Union Foundation and its Disaster Relief Fund under the auspices of the R.E.S.C.U. program to coordinate fundraising and funds distribution from credit unions, and to credit unions in need in the hurricane- and flood-ravaged states.

Additional resources will be added to the R.E.S.C.U. program as needed or identified by the credit union movement.

Through the program, we have been working in five key areas:

**Mobilization of Financial Resources:** Through the National Credit Union Foundation and their partner state League foundations we have begun to raise funds to assist with credit union relief efforts. Within two weeks we passed the \$1.5 million threshold; however, we are anticipating the needs to be much greater. Contributions can be made contributions on-line.

**Soliciting and Collecting Offers of Assistance:** CUNA made an initial appeal to the National Credit Union Roundtable, the organization of the movement's largest credit unions, for immediate assistance of generators and mobile offices. We have subsequently made a second request and are pleased with the amazing response. We now have expanded this program to provide three ways for all credit unions to offer assistance (e-mail, web form, telephone) such as equipment or staffing. We will work to match credit union offers with the needs of the affected credit unions.

**Adopt – A – Credit Union Program:** The brainchild of the Florida Credit Union League, the Adopt-A-Credit Union program has now become a national effort. The magnitude of the devastation continues to emerge and the needs seem to be increasing daily.

Credit unions throughout the gulf region were hit hard with the wrath of Hurricane Katrina and now find themselves with the daunting task of rebuilding their credit unions, in most cases literally and figuratively.

The Adopt – A – Credit Union program is designed to provide these credit unions with the critical human resources and financial support to help them return to the important job of serving their members.

Adopting a credit union is a significant step to take, yet the recovery of the affected credit unions is imperative in all possible cases and will require the wellspring of human, financial, and technical resources that other credit unions can draw upon.

**The Adopting Credit Union's Responsibilities:** Circumstances will vary at different affected credit unions and the following list is not all- inclusive, but adopting credit unions should be prepared to:

- Address the all-emerging needs of the credit union directly.
- Assign a senior executive liaison to coordinate with the credit union CEO (or designee) of the adopted credit union. Depending upon the circumstances, this may be a full-time job.
- Make a commitment to participate for as long as two-years or until the credit union is fully operational and no longer requires assistance.

- Provide significant financial assistance to the adopted credit union based on needs, e.g. payment of staff salaries, providing temporary jobs for displaced staffs, paying for transportation and housing of staff and/or their families, equipment, etc.
- Provide temporary staffing and/or training for staff of the impacted credit union.
- In instances where the needs are beyond the resources or abilities of the adopting credit union, coordinate with the assigned League and CUNA liaison to marshal the resources to meet the specific needs.
- Work with third-party vendors, particularly core processors to ensure business continuity.
- Work with the credit union and its regulatory agency to ensure business continuity and resolve any outstanding regulatory issues.
- Help develop and implement an ongoing communication plan that keeps members and sponsors apprised of all developments.

**Identifying Credit Union Needs including Employees/Volunteers:** We have been working directly with the Alabama, Louisiana, and Mississippi credit union leagues to identify the credit unions' and their employees'/volunteers' needs on a daily basis. Because of the increasing needs, CUNA has developed a toll free phone number and on-line web-form for credit unions, their employees and volunteers to communicate their needs directly to the system. We will continue to work with the Leagues to identify needs and coordinate the fulfillment of them.

**Emergency Needs Coordination:** From the first day after Hurricane Katrina hit the coast, CUNA has been holding daily conference calls with the impacted Leagues and credit union system organizations including corporates, NCUA, CUNA Mutual Group, and other key vendors to marshal resources to meet the immediate needs of Leagues and their member credit unions. From cash deliveries to satellite phones, we continue to meet daily to address the emerging needs and coordinate the system's resources. For example, the next great challenge appears to be temporary housing for employees.

In addition to providing members with access to help to meet their basic needs, it is important to also make sure that in addition to access to funds that we take efforts to suspend some of the safeguards, restrictions, and even fees that are part of every day business. For example, many credit unions are waiving interest and/or principal payments on loans; waiving fees, such as for ATMS, overdrafts, etc.; serving nonmembers from the affected areas as permitted by the NCUA; facilitating the granting of credit by raising loan limits or otherwise easing repayment terms; and using ways other than documents to verify the identity of members. I might add that many have asked what financial institutions are doing to ease the suffering of their customers or members. These are things that credit unions are doing not because they are being urged to do so, but because it is the right thing to do for their members, who in many cases are like family.

## **EFFORTS OF LEAGUES AND CREDIT UNIONS**

The outpouring of humanitarian aid for Katrina's victims, whether in the form of money, equipment or items for basic needs, has been overwhelming. There are hundreds of examples of leagues, credit unions, and others that are doing their best to help ease the pain and repair the destruction. The following is a partial description.

The Florida Credit Union League and its member credit unions are perhaps the most experienced in dealing with the aftermath of a hurricane. The Florida League has pledged their support to the credit union leagues of Louisiana and Mississippi, and the three leagues will be meeting in Pensacola, FL this week for a face-to-face meeting to share their experiences and discuss what assistance is needed.

The Florida Credit Union League will be working with its member credit unions not only to raise money for a special disaster fund (to go to the Louisiana and Mississippi Foundation relief efforts), but offering them the opportunity to "adopt" an affected credit union, helping with operational needs, supporting the economic reconstruction of the affected areas with lending programs to support the local community needs, as well as helping with personal needs of the families of credit union volunteers and staff.

The Florida Credit Union League itself will be "adopting" the staff of the Louisiana and Mississippi Leagues, helping league employees rebuild their families and lives. Many at the League are offering their homes to any affected League staff that are able to live in Tallahassee for a short time, providing space to work out of the Florida League offices. As we speak, this concept of "adopting" a credit union has proven so popular, that it is expanding nationwide with the assistance of CUNA.

Individual credit unions, corporate credit unions and league efforts include:

Several Houston area credit unions, including PrimeWay FCU and Associated CU of Texas, have offered mobile units to give stranded families access to their funds. People's Trust FCU – formally Shell Employees FCU – will serve as a hot site for Shell New Orleans. Several other Texas credit unions are offering guest accounts, no-fee accounts, and check-cashing services.

Just outside of Shreveport, LA, Barksdale Federal Credit Union is opening its doors to credit union members who fled the New Orleans area, Mississippi and Alabama. The credit union has made arrangements to cash checks up to \$200 for credit union members who have traveled to the area. Services will be provided to those with some evidence that they are members of a credit union, such as a checkbook or debit card with a credit union logo. Barksdale FCU is also waiving wire transfer fees, and it will help facilitate a loan if it can contact the other credit union. And, credit union staffs aren't just standing by to help members when needed. Employees are also providing home-cooked meals to hurricane victims staying in the hotel next door to the credit union.

Southeast Corporate (Tallahassee) has established a task force to coordinate operations efforts in support of its members' immediate and near-term business needs. The task force is a multidisciplinary team from throughout the corporate that is working in coordination with regional and national credit union organizations.

Southwest Corporate (Dallas) has also established a Disaster Recovery Team to assist in a wide variety of areas, including lines of credit, settlement, etc. Southwest has already helped a few member credit unions in affected areas by getting updated balances to ATM systems to ensure member funds were available. Southwest Corporate has made a \$100,000 donation to help establish a Louisiana Credit Union Recovery Fund.

The California Credit Union System activated its disaster relief fund to coordinate credit union contributions in California and Nevada, which will be collectively forwarded to the NCUF. The California League and CU Direct Corporation are matching donations to credit unions and charitable organizations made by employees. The League is matching any individual staff contributions up to a total of \$25,000.

The New Jersey Credit Union Foundation, New York Credit Union Foundation, Missouri Credit Union Charitable Foundation, and the Pennsylvania Credit Union Foundation have all set up disaster relief funds.

The Oklahoma credit unions, through their Foundation, quickly surpassed their initial goal of \$50,000 and have set a new goal of \$75,000 for their Katrina Relief Fund effort.

The Texas Credit Union Foundation issued a statewide appeal, already receiving pledges for \$50,000 for the hurricane relief efforts from the state credit unions movement.

The Pennsylvania State Employees Credit Union will match member contributions for Hurricane Katrina up to \$250,000. Credit union members can use PSECU's free bill payer service to make one-time or recurring donations to one of five relief organizations.

GTE Federal Credit Union's (Tampa, FL) Charitable Foundation board of directors has voted to make donations to the American Red Cross Hurricane Katrina Relief fund dollar for dollar to match its members' individual contributions.

Eglin Federal Credit Union in Ft. Walton Beach, FL has been cashing checks for members of credit unions in the effected areas. They also have taken two generators, fans, lights, gasoline, and other equipment to the University of Southern Mississippi Credit Union in Hattiesburg, MS. Their IT personnel assisted in setting up their PCs.

The following is a summary of actions taken to date by ChevronTexaco Federal Credit Union (CTFCU):

(1) With access to cash being among the most urgent needs, CTFCU shipped \$100,000 in cash via special courier on Saturday to Chevron Pascagoula Federal Credit Union. A

second cash shipment of \$400,000 will arrive by Thursday. The cash is being provided in the form of an interest-free loan to Chevron Pascagoula FCU.

(2) The credit union is offering emergency relief loans of up to \$25,000 to members in affected areas. The loans are of two forms: if Chevron employees, available at a rate below the Prime Interest Rate (guaranteed by Chevron Corp); if non-employees, available on an unsecured basis at a rate below its best unsecured rate. It also has automatically extended all payments and waived all late fees and credit reporting for a minimum of 90 days for borrowers in the affected areas.

(3) It is in the process of shipping an ATM/cash dispenser to Lafayette, Louisiana, a site where many New Orleans-based Chevron employees are being relocated. The local credit union, CUSA FCU, is out of service.

There are a number of things that the Boeing Employees Credit Union (BECU) is working on to help affected credit unions and their members. First, it has waived its maximum matching dollars for contributions from its employees to the Red Cross, so it will match anything that is contributed. For its approximately 300 members in the affected area with about \$1,000,000 in loans, BECU has instituted its Income Interruption Program. This defers payments on loans and provides for emergency loans for things such as house payments, food and medical needs. These can be up to \$10,000. BECU has already sent some satellite phones for use in the area, and is putting together a list of other resources that it will make available. BECU has in excess of 10 ATMs that are ready to be committed, along with a great deal of furniture and IT equipment. BECU also is contacting officials to see if there are things they can do for about 2000 people who are being sent to Fort Lewis, WA, both in terms of financial services and living needs.

The Carolina Postal Credit Union has teamed up with a popular talk show host to spur American Red Cross donations, which as of September 1st has raised \$131,000 and brought in 10 semi-trucks of supplies. State Employees Credit Union in Raleigh and the Carolinas Credit Union Foundation are collecting donations at 187 branches until September 30<sup>th</sup> for the NCUF.

Eastern Financial Florida CU, in Miramar, FL, has declared September as “American Red Cross Month” and will focus on raising funds for the American Red Cross relief fund.

The Virginia Credit Union, in Richmond, Virginia, will be matching 100% of the funds donated by its 450 employees during September.

Aerospace Community CU, St. Charles, is matching all funds collected at branches through September 15, proceeds to go to the Salvation Army’s hurricane relief efforts.

## **EFFORTS OF OTHER CREDIT UNION SYSTEM MEMBERS**

### **National Credit Union Administration (NCUA)**

A vital consideration has been member access to their funds when their credit union is not operational. CUNA was pleased, therefore, that the National Credit Union Administration (NCUA) issued a temporary ruling last week that will allow federal credit unions to provide assistance to other credit unions and non-members in the areas affected by the hurricane under certain conditions:

*“A federal credit union may provide services to persons who are members of another credit union under their correspondent services authority.*

*Emergency financial services for non-members, including the services of check cashing, access to ATM networks, or other services to meet short-term emergency needs of persons in the areas affected by the hurricane, can be provided under the authority to engage in charitable activities. Federal credit unions providing services on a charitable basis may not impose charges for services that exceed their direct cost.”*

NCUA’s announcement and guidance will be vitally important in enabling credit unions to help more people regain their footing. Credit unions and leagues from across the country are working in true cooperative fashion, looking for ways to assist those in the devastated areas.

### **National Credit Union Foundation (NCUF)**

The National Credit Union Foundation (NCUF), the national charitable arm of the credit union movement, has activated its National Disaster Relief Fund to provide a channel for contributions from within the credit union system to support credit union disaster relief and rebuilding in the affected areas. Funds raised via the NCUF Disaster Relief Fund will be disbursed through the league or state foundation for use at the local level. In the immediate future, NCUF foresees the funds being used to provide emergency relief for such necessities as housing, food and transportation to credit union and league staff, volunteers and members.

NCUF has already received pledges of between \$1.25 and \$1.5 million for the relief efforts.

CUNA has made an initial contribution of \$10,000 to NCUF’s National Disaster Relief Fund, in addition to coordinating several assistance programs.

## **Shared Branching Network**

A unique aspect of the credit union system is the concept of credit unions joining together to share physical space and services to their members. In this time of crisis, the shared branching network has been an added relief for many credit unions in the affected areas. Credit unions that participate in the network are able to send their members to other credit unions participating in the shared service centers to access their accounts. For the credit unions in the hurricane's hardest hit areas that are not part of the shared branch network, CEO's are working to set up agreements with other credit union CEOs in order to back each other's member transactions, within limits, on an emergency basis.

For example, one network reports that it has connected 3 new credit unions in a 24 to 48 hour time frame. They have several more that are in the "pipeline" to go on shared branching in the Hurricane stricken area. These include both Louisiana and Mississippi credit unions. Alabama was able to have all of their shared branching credit unions up and functioning within a day or two. Some of the states involved with this network have offered special off-line programs to the members of the credit unions in the Hurricane area. For example, \$200.00 withdrawals were allowed by the members in certain states without on-line verification and the states agreed to stand behind any losses. Staff has been assigned to work specifically with the credit unions effected and provide a simple way for the credit unions to utilize shared branching. What this action means is that all of the credit unions that are on shared branching can be assured that their members can access their accounts across the nation. The networks have worked with the data processors to develop connectivity as rapidly as possible. Any adjustments that have to be made because of the disruption are being done at no cost to the credit unions or the members.

It is estimated that there may be up to 30 or so new credit unions that will come on the system to offer service to their members. Many of these credit unions are smaller ones and there is an effort to make it economical for the credit unions to come on the system rapidly. This is a great way for the smaller credit unions to continue to serve their members. It has reportedly been said by regulators, league executives, and others that shared branching was a "God send" for the credit unions in this instance. One network is doing totally nearly 4 million transactions per month and the other networks are also doing combined around 3 million. The great story in the shared branching arena is that members were and are able to access their accounts wherever they are located. For example, Texas actually is thinking about setting up more acquirer locations to serve those displaced members. It is one big cooperative effort.

## **CUNA Mutual Group**

CUNA Mutual Group, a leading provider of financial services to credit unions and their members worldwide, already had local field staff and catastrophe adjusters in place before the hurricane hit. They are now working tirelessly to assist the credit unions in the

damaged area to resume their business operations, though due to the widespread damage, it is expected to take close to two weeks for CUNA Mutual to complete the assessments.

CUNA Mutual is also helping credit unions and their members remotely by establishing call centers, hosting websites, addressing insurance coverage questions and making financial contributions. Among them:

- The LoanLink Center (TLC), a remote lending call center, owned by CUNA Mutual and credit union leagues, is assisting one of the largest credit unions in southern Mississippi to regain basic business functions. TLC is hosting the credit union's website and telephone call center to provide members with basic information and to help with loan applications. TLC is also working with other customers to help regain basic business functions.
- Claims teams are assisting members and credit unions with MEMBERS Auto Insurance and MEMBERS Homeowners Insurance program coverages, which are underwritten by Liberty Mutual and Progressive Insurance.
- CUNA Mutual Mortgage Corporation has placed a block on any new assessment of late charges and credit bureau reporting for credit union members who have mortgages serviced by CUNA Mutual Mortgage in counties declared disaster areas by FEMA due to Hurricane Katrina.
- CUNA Mutual gave a \$150,000 donation to the NCUF's National Disaster Relief Fund to help credit unions in the Gulf Coast region affected by Hurricane Katrina.

### **National Federation of Community Development Credit Unions (NFCDCU)**

The NFCDCU has reported that several CDCU's in the New Orleans area are still not accounted for. Many throughout the New Orleans and Mobile area suffered looting and destruction of property. One of its largest members, serving nearly 100,000 people, had to evacuate all of its branches in the New Orleans area and move its operation to Baton rouge. Meanwhile, CDCUs in Shreveport, Birmingham, and other areas are receiving evacuees, mobilizing assistance, distributing aid, and helping people take the first steps to rebuild their lives. The CDCUs, like all credit unions, will face losses, and many borrowers will be unable to repay their loans.

### **LEGISLATIVE RELIEF**

Whether through temporary or permanent measures, Congress can play a role in assisting credit unions and other financial institutions in meeting the needs of the victims of Hurricane Katrina who may still be in the affected areas or may be scattered around the country.

We have seen several ideas on how to help Katrina's victims, including indemnification programs for cashing checks and waiving some of the Federal Reserve's fees. Each of these have merit and promise to provide a measure of relief for both individuals who have suffered losses and the financial institutions that are attempting to help them.

### **Inadequacy or Lack of Flood Insurance Coverage**

Flooding from Hurricane Katrina was unprecedented, reaching further inland and higher ground than any other flooding event in history. Countless homes and businesses were destroyed or severely damaged. Many of these properties, because of where they were located, were not covered by flood insurance. Unless the owners are reimbursed in whole or part by FEMA or some other government program, they will be wiped out and in many cases, forced to abandon their homes or businesses, and perhaps forced into bankruptcy. And for many of those fortunate enough to have carried flood insurance, the payments will not be sufficient enough to cover their losses, possibly leading to similar results for some of the uninsured. Given the cataclysmic extent of the destruction caused by Katrina, for the sake of the thousands faced with unthinkable choices, I ask whether the government can find a way to provide these people with the hope of returning to their homes by granting them some form of financial relief.

### **The Need for PCA Relief in the Wake of Katrina**

The loss of homes and businesses will have far reaching effects beyond the property owners themselves. Financial institutions will face losses as a result, as well. Many of the loans will no longer have secured property in back of them. This will cause significant stress on their portfolios. So from a unique credit union perspective, perhaps one of the most meaningful things that Congress can do is to address the problems associated with capital issues that will be facing our members.

There are serious concerns that going forward, the efforts for recovery of affected credit unions, as well for assistance from other credit unions, will be significantly limited by restraints imposed on credit unions under prompt corrective action (PCA).

That is because PCA, in effect, not only forces credit unions to restrict growth that results from the deposit of new funds, but also requires NCUA to impose significant regulatory sanctions on credit unions that face declining net worth.

Considerable PCA concerns may be faced by a number of credit unions in the path of Hurricane Katrina, due in part to the relocation of their membership, as well as to the uncertain future of their communities. Issues such as non-performing loans, which are a very real concern, would exacerbate the situation. And be assured, many credit unions themselves were destroyed, as were the assets of many of their members. In addition, growth concerns will arise once members begin receiving insurance checks and deposit them in their credit unions.

As structured under the statute, NCUA, unlike banking regulators, has limited flexibility to work with credit unions that encounter PCA problems, even if those problems are the result of a catastrophe outside of their control. Also, NCUA may be required to impose net worth restoration plans on some credit unions in the affected areas, for which the credit unions would have to divert resources from their operations. Such plans also would provide the agency and the credit unions very few options in addressing extraordinary situations that have been spawned by Katrina.

Further, other credit unions outside the Hurricane's path are willing to help in a variety of ways, including by offering services, as permissible, to displaced individuals. They also may be willing to purchase loans from affected credit unions. However, their ability to help will be seriously tempered by PCA, particularly in the area of problematic loans.

While CUNA believes that PCA changes as proposed by the NCUA and embodied in H.R. 2371, the Credit Union Regulatory Improvements Act, should be made permanent, we urge Congress at this time to provide NCUA temporary authority to waive certain PCA requirements. This authority should be applicable for credit unions in the affected areas, as well as those seeking to provide economic assistance through the purchase of loans or other financial means, consistent with safety and soundness. We believe such a step would be essential in enhancing the ability of the agency and the credit union system to assist credit unions in need following Katrina and to help devastated communities regain their strength.

## **CONCLUSION**

The list of relief and support efforts from within the credit union movement is growing on a daily basis, and the actions of our members are too numerous to capture at this time. CUNA and its member credit unions are committed to working in the aftermath of Hurricane Katrina to help league and credit union staff, volunteers, and members rebuild their lives, communities, and financial well-being. It will be a long and difficult road for the victims whose homes and communities were devastated beyond repair, but the credit union movement is prepared to help the people, families, and communities regain their financial independence and a secure future.

**SUBCOMMITTEE QUESTIONS FOR WITNESSES AT THE HEARING OF  
SEPTEMBER 14, 2005**

- 1. What are the greatest challenges your institution faces in ensuring that victims access to their accounts? Are there temporary legislative remedies that can facilitate access to these accounts?**

There are several problems that affected credit unions have had to deal with. These include credit unions not being operational or having branches/ATMs that are not operational in certain areas. Initially, there were also issues of cash availability and issues relating to a lack of proper identification for some members.

The biggest challenges, however, may be related to the complete devastation of large regions and members unwilling to return to their former communities. Thus, rebuilding communities with the specter of fewer people in those areas to support their credit unions may be the most difficult problems credit unions face. This could result in significant capital problems for many credit unions, especially smaller ones. PCA reform along the lines described in the testimony and as proposed by the NCUA would be a major help in keeping such credit unions open and able to provide their members' access to their funds.

Other proposals, such as indemnification for cashing checks, could be helpful, too.

- 2. There have been several proposals to aid small and medium businesses affected by the hurricane through "fresh start" programs in which interest payments on business loans would be capitalized for a period of time. How would this type of program work? Is legislation required to do this?**

There are many ways such programs could be funded. These include allowing an affected credit union to write off the lost interest, as long as authority could be provided to NCUA to allow a credit union to do that without it impacting the credit union's net worth ratio. NCUA, working with the state regulators in the case of state credit unions, could also provide assistance to the affected credit unions. Additionally, credit unions that were not affected could provide charitable contributions to the affected credit unions, or they could purchase loans from the affected credit union's portfolio that could help provide financial resources for that credit union to forbear on interest payments.

- 3. Please describe in detail your plans for the mortgage payments from victims of the hurricane. Will there be an amnesty period for these individuals?**

We understand that some affected credit unions are considering such plans, which could be funded as described above.

**4. What impact would a waiver of Federal Reserve fees for services such as wire transfer or cash shipments have to a region affected by the hurricane? Would this result in a significant benefit to customers in the affected area?**

It would help but some credit unions are not significant users of the Fed's services.

**5. As a result of the hurricane is there increased urgency for deposit insurance reform? Should the coverage limits be increased?**

As a general principle, CUNA has never had a position on whether rates should be increased or not, but has always maintained that an increase for FDIC coverage must be accompanied by an identical increase for NCUSIF coverage in order to preserve our members' confidence that the fund is equally backed by the U.S. Government.

In that regard, it is estimated that approximately 5 percent of credit union deposits in the affected areas exceed \$100,000. This could be helpful, therefore, to those individuals, as well as those in FDIC-insured institutions and is worth consideration. The issue of how it would be paid for should also be considered. Credit unions, unlike the banks, fully fund their share insurance fund, the National Credit Union Share Insurance Fund. However, if based on the facts Congress determines this step would help victims, questions of how it would be paid for should be secondary.